

Omnitech Engineering Private Limited

March 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	50.23	CARE BBB; Stable	Reaffirmed
Long-term / Short-term bank facilities	35.00	CARE BBB; Stable / CARE A3+	Reaffirmed
Short-term bank facilities	2.50	CARE A3+	Reaffirmed

Details of facilities in Annexure -1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Omnitech Engineering Private Limited (Omnitech) continue to derive strength from its promoters' vast experience in the precision components manufacturing industry, established operations with continuous addition of new machines, reputed customer base, and geographically diversified revenue profile. Ratings also derive strength from significant improvement in Omnitech's total operating income (TOI) in FY23 (refers to period April 01 to March 31), which continued to remain moderate, and healthy profitability leading to strong debt coverage and return indicators.

However, ratings continue to remain constrained due to moderating capital structure on the back of on-going debt-funded capex, working capital intensive operations marked by elongated operating cycle, limited bargaining power against original equipment manufacturers (OEMs), and profit margins susceptible to volatility in raw material prices and forex rates. Ratings also factor in project risk associated with large-sized debt-funded on-going expansion capex, although it is in advanced stage of completion.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly growing scale of operations with total operating income (TOI) of over ₹200 crore while maintaining healthy profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of more than 30% on a sustained basis.
- Improving capital structure with overall gearing below 0.50x and total debt to gross cash accruals (TDGCA) below 1.50x on a sustained basis.
- Managing its working capital efficiently with improvement in working capital cycle to near 120 days.

Negative factor

- Deteriorating debt coverage indicators with interest coverage ratio of less than 3x and TDGCA of more than 5x on a sustained basis.
- Deteriorating profitability margins with PBILDT margin below 20% on a sustained basis.
- Elongating operating cycle beyond 180 days.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that the company shall continue to benefit from stable demand for its products and established relation with reputed customer base, enabling the company to sustain its healthy profitability over the medium term.

Detailed description of the key rating drivers

Key strengths

Promoter's vast experience in the precision components manufacturing industry

Udaybhai A. Parekh, Chief Executive Officer (CEO) and Director, has more than two decades of experience in the precision components manufacturing industry. He is well assisted by his brother-in-law Paras Parekh, both handling the company's overall administration and day-to-day operations.

Established operations with continuous addition of new machines

The company has established operations with track record of more than one and a half decades in manufacturing of turned and machined parts such as cylinder liner, piston, gear box, shafts, and connecting rod among others, which are precision engineering products/parts. Its manufacturing facility and processes are accredited with various certifications, ISO 9001:2015

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

(Quality Management Systems), ISO 14001:2015 (Environmental Management Systems), ISO 45001:2018: (Occupational health & safety management systems), and IATF 16949 (International standards for Automotive quality management systems). Omnitech has Star House Export certification.

Over the years, Omnitech has added various types of computer numerical control (CNC), vertical machining center (VMC), and gear shaper machines to strengthen its capability to manufacture precision parts per customer specifications. The company is further adding several machines as a part of on-going debt-funded expansion capex. Omnitech has large product offerings of more than 4,000 products.

Reputed customer base and geographically diversified revenue profile

Omnitech is primarily engaged in exports of precision components and 76% of its TOI came from exports in FY23 (77% in FY22). The company's exports constitute majorly to the US and EU region.

The company primarily caters directly to the requirements of the original equipment manufacturers (OEMs). Omnitech has reputed customer base due to its specialised products, precision and various accreditations and product quality and thereby commands healthy profitability. Omnitech caters to the requirement of diverse industry segments, including earth-moving equipment, airport and ground equipment, oil & gas, power, and other engineering industries. The company's customer base remained diversified marked by top 10 customers forming 50% of its total income in FY23 [57% in 9MFY24].

Healthy profitability

The company is essentially engaged in manufacturing precision components for various critical industries, and hence, commands healthy profitability. Additionally, the company caters to reputed customers in the US and Europe, resulting in better sales realisation. The company's PBILDT margin showed improving trend in tandem with scale of operations due to operating leverage benefit (as well as addition of new machinery reducing production loss) and remained healthy at 37.47% in FY23 [35.70% in FY22]. The PBILDT margin continued to remain healthy at 36.36% in 9MFY24 [33.30% in 9MFY23]. In line with this, the company's return ratios also remained healthy with return on capital employed (ROCE) and return on net worth (RONW) of over 40% in last two years.

Comfortable debt coverage indicators though moderation in capital structure

Omnitech's capital structure marked by its overall gearing ratio remained stable as compared to the previous year at comfortable level of 0.86x as on March 31, 2023 [PY: 0.85x]. However, it moderated to 1.60x as on December 31, 2023, owing to significant increase in term debt towards on-going large-sized debt-funded expansion capex and high working capital borrowings. Overall gearing is expected to further moderate as on March 31, 2024 (P) with expected incremental debt to be availed towards of the said capex. Omnitech's tangible net worth (TNW) base augmented due to accretion of profit into reserves and remained moderate at ₹86.66 crore as on March 31, 2023 [PY: ₹59.29 crore as on March 31, 2022], which includes unsecured loans from the promoters to the tune of ₹15 crore [PY: ₹25 crore] as quasi-equity, as the same is subordinated to the bank debt as per sanction letter.

Owing to healthy profitability, Omnitech's debt coverage indicators continued to remain comfortable with PBILDT interest coverage ratio of 7.79x [PY: 8.37x] and TDGCA of 1.61 years [PY: 1.61 years] in FY23. It continued to remain comfortable with interest coverage of 8.52x [PY: 7.39x] and TDGCA of 3.92x [PY: 1.66x] in 9MFY24.

Key weaknesses

Growing though moderate scale of operations

Omnitech's TOI grew by a healthy compounded annual growth rate (CAGR) of around 31% over past five years ended FY23, though it remained at moderate level. In FY23, it grew significantly by around 40% Y-o-Y to ₹180.60 crore as compared to ₹128.76 crore in FY22 due to increase in demand of its products from existing customers as well as addition of new customers in its portfolio. In 9MFY24, Omnitech's TOI remained stable over the previous year at ₹135.64 crore [PY: ₹135.90 crore]. Moreover, Omnitech has order book of ₹196.71 crore outstanding as on March 08, 2024, which is expected to be executed over the next eight-nine months.

Working capital intensive operations with elongation of operating cycle

The company is engaged in the manufacturing precision components of various sizes, types and specifications catering to diversified industry segments and has setup a warehouse in the US to decrease lead time to its customers. Also, the company purchases raw material at time of receipt of new contracts to mitigate raw material fluctuation risk. However, Omnitech has price escalation clause and terms for fixation of foreign exchange rates present in many of its sales contracts. Considering multiple products, transit time of 60-90 days and execution period leads to high inventory days. The company provides clean credit to its customers for around 60-90 days. However, the payment to the company's creditors needs to be completed in around 10 days resulting in high working capital intensity. All these resulted in an elongated working capital cycle of 172 days in

FY23 as against 138 days in FY22 owing to increase in inventory holding period from 91 days in FY22 to 123 days in FY23 with relatively higher order execution.

On-going debt-funded capex

Omnitech is executing a large-sized debt-funded expansion project which commenced from Q1FY23 and is expected to be completed by H1FY25. The company is expanding its manufacturing capacity at a nearby location considering increase in scale of operations and growing demand from the user industries. Total project cost is estimated at ₹176 crore and around 84% of project cost has been incurred as on February 29, 2024, which shall be funded through term loans of ₹131 crore (already sanctioned) and balance through internal accruals. Considering the relatively large size of the capex, timely completion and stabilisation of the project remains key rating monitorable. Omnitech is also planning to install hybrid renewable energy (RE) plant with cost of ₹22 crore [excluding the said ₹176 crore] in FY25 and financial closure of the same is already achieved.

Limited bargaining power against OEMs

Omnitech caters to reputed companies in the US and Europe, including Fortune 500 companies. Considering its size, it has limited bargaining power against OEMs. Omnitech has to maintain a large portfolio of product offerings and continuously evolve itself per the client requirement to remain competitive in business, as it competes with large, organised players for export orders.

Profit margins susceptible to volatility in raw material prices and forex rates

The company's key raw material consists of bar-stocks made of steel and alloys whose prices are volatile. Also, the orders are received monthly and quarterly, which are of fixed prices, expositing its profitability to volatility associated with raw material prices. However, as articulated by the management, Omnitech has price variation clause, with all its customers limiting its risk to volatility in raw material prices.

The company derives most of its revenue from export market as against limited imports, and the company manages its foreign exchange risk by using packing credit loan in foreign currency (PCFC) limit as well as entering forward contracts. The sales contract also has implicit forex hedging terms. However, Omnitech has not devised any formal foreign exchange hedging policy, which may result in forex gain/loss. In FY23, the company reported forex gain of ₹6.05 crore as compared to ₹0.95 crore in FY22.

Liquidity: Adequate

Omnitech has adequate liquidity marked by moderate cash flow from operations (CFO) and healthy cash accruals compared to moderate repayment obligations with moderate liquidity ratios and working capital limit utilisation.

Omnitech generated cash accruals of ₹46.38 crore in FY23 and is expected to generate cash accruals of around ₹50-100 crore in FY24-FY26 as against scheduled debt repayment obligations of ₹10-23 crore during same period. The company's average fund-based working capital utilisation remained moderate at around 50% p.a. in last 12 months ended in December 2023 [PY: 59% p.a.]. The company's unencumbered cash and bank balance remained low at ₹1.36 crore as on March 31, 2023 [₹0.82 crore as on December 31, 2023 (UA)]. Omnitech's CFO increased significantly in tandem with increased operating profit to ₹20.95 crore in FY23 as [PY: ₹7.88 crore].

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Other industrial products

Omnitech (CIN: U29306GJ2021PTC124801), erstwhile Omnitech Engineering, is promoted by Uday A. Parekh and Kinnariben U. Parekh as a partnership firm, which started its operations in 2006, and was subsequently converted into private limited company in August 2021. The company is engaged in manufacturing turned and machined parts which are precision engineering products catering to various industries such as oil & gas, power, agriculture and earth-moving equipment, hydraulics, airport ground support equipment, automation, and valve among others. These are customised products/parts which are manufactured per customer specifications from stainless steel and alloy bars, forging, and casting products. It has presence in India as well as export market (around 15 countries).

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	128.76	180.60	135.64
PBILDT	45.97	67.66	49.32
PAT	22.54	37.37	23.79
Overall gearing (times)	0.85	0.86	1.60
Interest coverage (times)	8.37	7.79	8.52

A: Audited; UA: Unaudited; Note: 'these are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated facilities: Detailed explanation of covenants of rated facilities is given in Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	31/05/2031	50.23	CARE BBB; Stable
Fund-based - LT/ST-Cash credit	-	-	-	-	35.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Loan equivalent risk	-	-	-	-	2.50	CARE A3+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	50.23	CARE BBB; Stable	-	1)CARE BBB; Stable (21-Mar-23)	1)CARE BBB; Stable (25-Feb-22) 2)CARE BBB-; Stable (01-Apr-21)	-
2	Fund-based - LT/ST-Cash credit	LT/ST	35.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (21-Mar-23)	1)CARE BBB; Stable / CARE A3+ (25-Feb-22) 2)CARE BBB-; Stable / CARE A3 (01-Apr-21)	-
3	Non-fund-based - ST-Loan equivalent risk	ST	2.50	CARE A3+	-	1)CARE A3+ (21-Mar-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated facilities - Not applicable
Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based - LT/ ST-Cash credit	Simple
3	Non-fund-based - ST-Loan equivalent risk	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings Limited has classified instruments rated by it based on complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

<p>Media Contact</p> <p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Name: Ankur Sachdeva Senior Director CARE Ratings Limited Phone: +91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in</p>	<p>Analytical Contacts</p> <p>Name: Kalpesh Patel Director CARE Ratings Limited Phone: +91-79-4026 5611 E-mail: Kalpesh.patel@careedge.in</p> <p>Name: Anuja Parikh Assistant Director CARE Ratings Limited Phone: +91-79-4026 5616 E-mail: anuja.parikh@careedge.in</p> <p>Name: Harsh Desai Lead Analyst CARE Ratings Limited E-mail: harsh.desai@careedge.in</p>
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About us:

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